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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Energy Use Rises ...

Consumption of petroleum products in the United States will increase in 1984, ending a string of year-over-year declines stretching back to 1979. The brisk upturn in economic activity has boosted oil demand by nearly six percent in the first seven months of this year, compared with the same period a year ago. The rise in consumption was paced by double-digit increases in jet fuel and distillate fuel usage—which includes diesel and home heating fuels. After falling precipitously for six years in a row, residual fuel demand recovered over the same seven-month period, rising by four percent.

Most of the increase in petroleum demand has come from industry; the rise in consumer-oriented products demand was only slight. During the January-July period of this year, home heating oil usage declined from year-earlier levels, and demand for motor gasoline ran only a meager two percent above the first seven months of 1983. This is surprising, especially in view of substantially improved consumer financial positions, the colder than normal winter temperatures, as well as relatively stable gasoline prices.

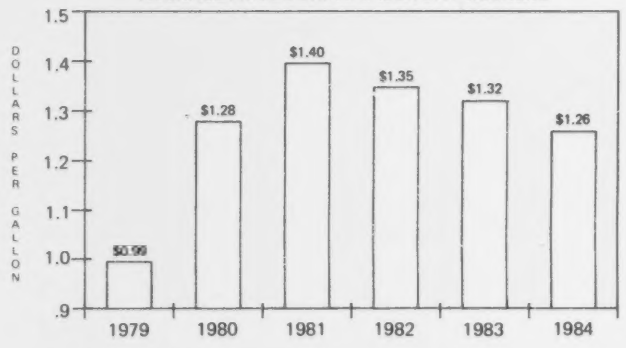
... Led By Industry ...

To be sure, people are driving somewhat more this year than last, but because of increased efficiency of the nation's car fleet, it is having a smaller impact on gasoline demand. While last year the average car traveled 16.6 miles on each gallon of gasoline, this year's mileage is expected to rise to about 17½ miles per gallon.

Normally, gasoline prices move up during the summer as refiners take advantage of the seasonal increase in demand to improve profit margins. But the opposite occurred this summer. According to the Automobile Association of America, between Memorial Day and Labor Day, gasoline prices dropped by an average of 2.4 cents per gallon. More specifically, the average Labor Day price of regular unleaded gasoline at $1.258 per gallon was not only six cents per gallon below last year's, but it was the lowest for this Holiday weekend in five years (see chart)! When adjusted for inflation, the slide is even greater—totaling nearly 25 percent since the peak in early 1981.

This price decline has not come unexpectedly (Financial Digest—June 4, 1984). A counterseasonal buildup of stocks since yearend 1983 caused a significant oversupply of gasoline in the marketplace by the end of May, resulting in stiff competition among refiners and, thus, lower prices. To avoid further erosion in gasoline profit margins, refiners have become very cautious in rebuilding their distillate stocks in spite of the approaching winter heating season. This is because, during the refining process, each barrel of crude oil yields about twice as much gasoline as it does distillates. Thus, refiners are reluctant to turn up production significantly to prepare for this winter's heating needs and add to gasoline inventories as well. In the past several weeks, refiners have been able to reduce gasoline inventories to somewhat more normal levels. But with the peak driving season coming to a close and gasoline demand beginning to subside, upward pressures on inventories may soon develop once again.

UNLEADED REGULAR GASOLINE,
AVERAGE PRICE DURING LABOR DAY WEEKEND



... While Consumers Still Conserve

Thus, refiners are adding to their distillate stocks at one of the slowest rates ever. At the end of August, they had 135 million barrels on hand, which was five percent below last year's level and 15 percent less than in August, 1982. In the five years ending in 1981, the average inventory at this time of the year was 210 million barrels—56 percent above current levels. Importantly, these abnormally low inventories are especially evident on the East Coast, which is the largest consumer of heating oil. With stocks at close to 50 million barrels, they are some 20 percent below last year's level—which proved inadequate. Last

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December's cold spell resulted in severe shortages in the Northeast, sending heating oil prices spiking upward on the spot markets. These increased costs were quickly passed on to consumers until refiners were able to step up production to meet unusually high demands.

If refiners do not produce home heating oil at a faster rate by November—when stocks of home heating oil generally reach their peak—it is possible that unseasonally low temperatures could again cause temporary shortages before refiners are able to catch up with demand.

Tied closely to the level of economic activity are the fortunes of the transportation industry. This year's stepped-up pace of business activity has benefited the trucking industry which hauled ten percent more tonnage in the first six months of this year than last year. Nearly 13 percent more railroad cars were loaded during this period as shipments of motor vehicles by rail rose 21 percent and metals and metal products by 25 percent. In response, consumption of diesel fuel jumped 15 percent in the January-June period, compared with a year ago.

As a result, the average retail cost of diesel fuel, now at $1.26 per gallon, is higher than that for unleaded regular gasoline available at self-service stations. With increases in fuel efficiency in the airline industry

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	9/5/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	161.635	+ 3.809	+ 7.500
Loans to Depository Inst.	8.007	− .349	+ 6.761
Float	.373	+ .267	− .570
Total Reserve Bank Credit	178.234	+ 3.863	+ 14.404
Treasury Deposits with Federal Reserve Banks	4.140	+ .525	+ .726
Currency in Circulation	177.085	+ 1.589	+ 13.330
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	121.136	+ 2.206	+ 13.083
	8/29/84		
Member Bank Reserves:			
Total Reserves Held	36.237	− .782	+ 1.354
Excess (Deficiency)	.685	− .015	+ .192
Net Free Reserves	.049	+ .388	+ .553

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (8/27/84)	547.1	+ 3.8‡	+ 5.7‡
M2 (July '84)	2,281.1	+ 6.8	+ 7.3
M3 (July '84)	2,858.8	+ 9.9	+ 9.8
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/7/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.55%	10.60%	10.65%
* Federal Agencies	11.00	11.60	12.15
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.30	11.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.50	11.75	12.40

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	11.35%	Oct.	11.50%
15- 29 days	11.35	Nov.	11.50
30- 59 days	11.35	Dec.	11.50
60- 89 days	11.20	Jan.	11.45
90-179 days	11.00	Feb.	11.45
180-239 days	10.80	Mar.	11.45
240-270 days	10.80		

‡ Industrial Paper—Prime			
30- 89 days	11.30%	† Federal Funds Effective Rate	11.55%
90-120 days	11.30		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,648	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,641	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.6	10.1	9.4
Change in Consumer Prices (new series)*	Jul '84	3.6%	2.4%	4.8%
Change in Producer Prices*	Jul '84	3.6%	0.0%	0.0%
Civilian Employment (Thousands of Persons)†	Aug '84n	104,969	105,395	101,484
Unemployment as % of Civilian Labor Force†	Aug '84n	7.5%	7.5%	9.5%
Personal Income*	Jul '84	$ 3,027	$ 3,003	$ 2,745
Leading Indicators Composite Index (1967 = 100)†	Jul '84	165.3	166.6	158.2
Industrial Production Index (1967 = 100)†	Jul '84	165.6	164.1	149.7
Net Change in Consumer Installment Credit †	Jun '84	$ 7.83	$ 10.23	$ 3.86r
U.S. Merchandise Trade Balance †	Jul '84	−$ 14.06	−$ 8.91	−$ 6.37
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jul '84	1,761	1,886	1,793
New Construction Expenditures*	Jul '84n	$ 311.4	$ 309.3r	$ 272.3
Total Business Inventories †	Jun '84	$ 546.1	$ 545.9	$ 500.6
Total Business Sales †	Jun '84	$ 413.6	$ 412.7	$ 369.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

stabilizing and air traffic soaring, consumption of jet fuel in the first seven months of this year rose by more than 11 percent, year-over-year.

Finally, 1984's consumption of residual fuel—heavy oils used primarily for electric power generation, industrial and commercial space heating and ship fuel—has staged a comeback after falling by an average of 12 percent per year in each of the previous six years. Nevertheless, substitution of alternative fuels continues in many industries. For example, coal continues to displace petroleum in the electric utility sector due to its price advantage. Electric utilities generated nine percent more electricity in the first six months of this year, utilizing six percent less petroleum, but at the same time burning 12 percent more coal and ten percent more natural gas.

However, it is not likely that petroleum products consumption will continue to post these hefty gains much longer. Although the business expansion will remain solidly on track into 1985, real GNP growth is expected to slow from its torrid first half 1984 pace—and with it the demand for petroleum. In fact, preliminary numbers show that in the four weeks ending August 31, residual oil needs dropped by 15 percent, year-over-year, despite a more than 10 percent increase in industrial production and gasoline consumption at 6.9 million barrels per day, was no higher than one year ago. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/22/84)	157,922	− 164	+ 9,069
New York City (8/29/84)	35,094	− 53	+ 1,950
Commercial Paper (8/29/84)	222,140	+ 1,636	+49,732

Bank Loans

(Millions of Dollars)

Commerical and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/84)	243,067	− 732	+27,365
New York City (8/29/84)	63,745	− 337	+ 5,716

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/84)	615,708	− 4,718	+89,015
New York City (8/29/84)	136,785	− 327	+16,876

Financial Markets

	Friday 9/7/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.00%	− .05	+ 1.70
180-Day Bills†	11.45	− .02	+ 1.85
Longest Bills†	11.90	+ .01	+ 1.85
Recent Issues:			
12⅜s 8/31/86	12.50	− .02	
13⅜s 6/30/88	12.75	+ .01	
12⅝s 8/15/94	12.75	− .04	
12½s 8/15/14	12.40	− .11	
Municipals:			
Bond Buyer—20 Bond Index* (9/6/84)	10.18%	+ .01	+ .51
Blue List Total ($ Million)	$1,596	− $ 74	+ $ 514
30-Day Visible Supply ($ Million)	$3,689	+ $260	+ $1,275
Total	$5,285	+ $186	+ $1,789
Corporates:			
Moody's Aa Composite (9/6/84)	13.42%	− .04	+ .75
30-Day Visible Supply ($ Million)	$ 650	+ $150	− $ 117
Stocks:			
Dow-Jones Averages:			
Industrials	1,207.38	− 17.00	− 32.36
Transportation	507.41	− 13.10	− 62.25
Utilities	129.10	− .36	− 2.67
65 Stocks	466.72	− 7.27	− 24.18
Standard and Poor's 500 Stocks	164.37	− 2.31	− 2.55
N.Y.S.E. Composite Index	94.69	− 1.17	− 1.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	77,055	+ 7,561	− 7,865

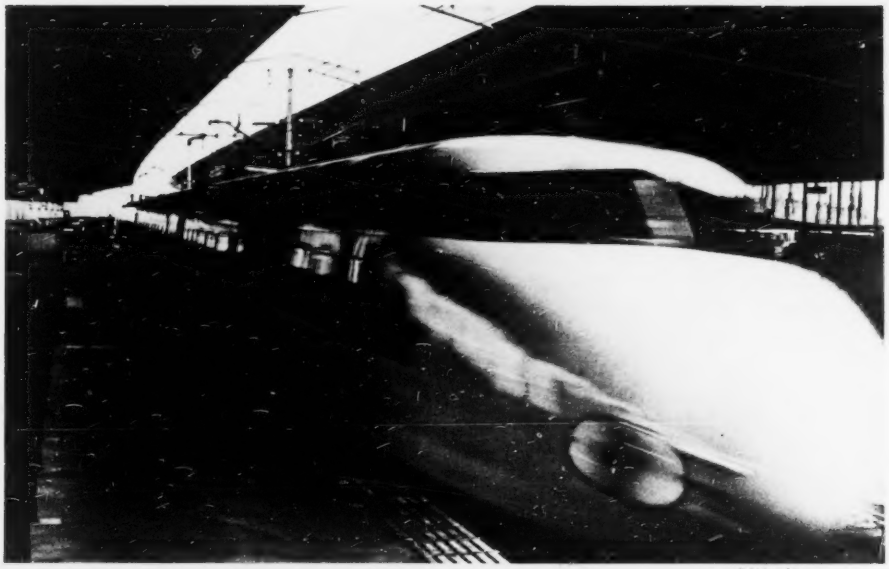
* 46% Taxable equivalent 18.85%

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/7/84	Week Ago
Overnight	11.50%	11.56%
1 month	11.75	11.75
3 month	11.88	11.88
6 month	12.19	12.19
1 year	12.69	12.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.55%
Long Term (7 to 15 yrs.)	12.50	12.55

FOREIGN EXCHANGE SPOT RATES New York Opening (9/7/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01672	59.82
Canada	.7631	1.3105
Denmark	.09285	10.7700
France	.1096	9.1200
Germany	.3364	2.9725
Italy	.0005467	1829.00
Japan	.004082	245.00
Mexico	.005089	196.50
Netherlands	.2985	3.3500
Switzerland	.4047	2.4710
U.K.	1.2780	.7825



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